Committee On Finance
Max Baucus, Chairman

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SENATOR MAX BAUCUS
ECONOMIC STIMULUS PACKAGE FOR 2003

It is important that Congress provide an immediate, effective and responsible economic stimulus package in order to strengthen the economy and reduce unemployment. The economic stimulus package I'm presenting today would provide significant stimulus of $160 B – about 1.6 % of GDP – in FY 2003. When the economy is not at full employment, stimulus occurs when consumers and businesses in the private sector *spend* more money and do so quickly. By temporarily cutting Federal taxes and increasing Federal spending, my package would raise private sector spending by consumers and businesses, which will lead to reduced unemployment and stronger economic growth.

My package is also very responsible because it would not weaken long-run fiscal discipline by increasing deficits in the outyears. This would be achieved because this economic stimulus package costs less over ten years than it does in the first year – $160 B in FY 2003 versus $135 B over ten years. In addition, my package will increase fiscal discipline by extending three key "60-vote" budgetary points-of-order in the Senate. Under current law, these points of order that enforce fiscal discipline would expire on April 15th. My package would extend them through the end of calendar year 2004 or longer.

My package would help the economy in both the short-run and the long-run. It will provide significant economic stimulus in the short-run while increasing fiscal responsibility in the long-run.

1. GENERAL REVENUE SHARING WITH STATES

The provision instructs the U.S. Treasury to distribute $75 billion to the states and territories on a one-time basis as close to enactment of the legislation as possible. No restrictions are placed on how the new funding may be used.

Cost: FY03: $75 billion FY03 - FY12: $75 billion

Stimulus Impact:

Prior to the beginning of FY 2003 (which began in July of 2002), the FY 2003 budgets of many states were projected to be in deficit as a result of the sluggish economy. However, states generally have requirements to balance their budgets. Therefore many states were forced to lay off workers, reduce spending and raise taxes in FY 2003 in order to keep their budgets balanced. State budgets are now projected to have deficits that total about *$70 Billion* for *FY 2004* (which begins in July of 2003). Therefore states would once again be forced to lay off workers, reduce spending and raise taxes. Unfortunately, these countercyclical actions by state governments would significantly exacerbate the sluggishness of the economy. If, however, states were provided in a timely manner with $75 billion of revenue sharing money on a one-time basis, the states would use almost all of these funds to avoid implementing many of these countercyclical actions, thereby preventing the exacerbation of the economy's weakness that would otherwise occur.

2. UNEMPLOYMENT INSURANCE (UI) EXTENSION

The provision:

- Continues Federal extended UI benefits for a 6- month period: The current program ends on December 28. Thus, under the new provision, during the six month period following December 28th, unemployed workers who exhaust regular UI benefits would be eligible for 13 weeks of federal extended benefits.

- Provides an additional 13 weeks of extended benefits for "exhaustees": About 1 million unemployed workers have exhausted the initial 13 weeks of federal benefits that Congress passed in 2002 but remain unemployed. More unemployed workers will exhaust their benefits in the next six months. This new provision would make those long-term unemployed workers who exhaust their initial 13 weeks of benefits eligible for an additional 13-week extension in benefits.

- Adopts a "soft" cut-off for the extension: Unemployed workers whose 13-week extension starts less than 13 weeks before the official end of the program would receive their full 13 weeks even if no new people are starting. (The current law has a "hard" cut-off on December 28th so families that have received less than 13 weeks of benefits are cut off. Under the new provision, these families would receive retroactive payments.)

- Fills in the Gaps: This provision temporarily provides federal funding for regular UI benefits to part-time workers and those who would be eligible under "alternative base periods."

Cost: FY03-04: $17 billion FY03 - FY12: $12 billion (as a result of changes to Reed Act distributions)

Stimulus Impact**:**

Unemployed workers and their families are often severely strapped for cash. Therefore, if additional unemployment benefits were provided to these workers – by extending or expanding coverage of benefits – most of the additional benefits would be spent by the families, rather than saved. As a result, this additional spending would stimulate the economy. Moreover, these additional benefits could be provided to beneficiaries quickly and the money would be spent by the beneficiaries quickly. Therefore, stimulus would be provided to the economy in a timely fashion.

3. NO INCOME TAX ON THE FIRST $3,000 OF WAGES

The provision will eliminate the income tax on the first $3,000 of wages in 2003. Withholding tables will be adjusted to distribute the tax cut to workers as soon as possible. Low-income wage earners will be entitled to a 10% rebate on $3,000 of their wages.

Cost: FY03: $45 billion FY03 - FY12: $45 billion

Stimulus Impact**:**

Consumer spending has kept the economy afloat, despite weak business investment. Consumer confidence, though, has receded in recent months. Reducing taxes for all workers will increase consumers' disposable income and improve their confidence, thereby increasing consumer spending and stimulating the economy.

4. HIGHWAY CONSTRUCTION

The provision instructs the U.S. Treasury to sell $4 billion in tax credit bonds immediately. Proceeds from the bonds will be deposited in the Highway Trust Fund and then sent out to the states as FY 03 apportionments.

Cost: FY03: $4.3 Billion FY03 - FY12: $6.8 Billion

Stimulus Impact

Increased funding for highways can be distributed to states quickly and states can spend the funds quickly, as projects are waiting to be done and the formulas by which funds will be distributed are very flexible, giving states much discretion. This additional spending would stimulate the economy in a timely manner. Each additional $1 billion spent on highways will create 48,000 new jobs. A $4 billion increase in federal highway investment will result the generation of 190,000 American jobs during 2003-2010.

5. CORPORATE GOVERNANCE

The package of provisions are designed to curb the proliferation of abusive tax avoidance transactions, commonly referred to as "tax shelters." The package builds on the Tax Shelter Transparency Act unanimously approved by the Finance Committee in June 2002 by adding provisions to 1) clarify the "economic substance" doctrine, 2) require under penalties of perjury the signature of the CEO or CFO on Federal tax returns, and 3) require the disclosure of tax shelter transactions to the Audit Committee. The most effective approach to combat tax shelters involves early interdiction coupled with vigorous enforcement by the IRS and an understanding by shelter participants that transactions must be entered into for legitimate economic and business reasons and not for tax avoidance. The shelter package focuses on early detection through disclosure and tough sanctions for noncompliance.

The legislation will also make clear that tax benefits claimed to arise from transactions that do not meet the economic substance requirement will be denied. By requiring CEO or CFO signatures on tax returns and disclosure of questionable transactions to the Audit Committee, the package places greater responsibility on corporate officials to ensure that the company is tax law compliant.

Raises $13 billion over 10 years

Stimulus Impact:

The corporate governance package is designed to restore consumer, business and investor confidence by curbing abusive tax avoidance transactions and strengthening corporate governance. In addition, the package will encourage businesses to invest in substantive transactions for legitimate economic and business reasons and not for tax avoidance thereby stimulating the economy.

6. HEALTH INSURANCE TAX CREDIT FOR BUSINESSES

This provision establishes a tax credit of up to 50% of the employer cost of health insurance premiums for businesses with 50 or fewer employees.

Cost: FY03: $3 billion FY03 - FY12: $4 billion

Stimulus Impact:

The rising costs of health care have had a disproportionate impact on small businesses. Providing their employees with health coverage creates a significant drain on the resources of these businesses. This provision will encourage small businesses to retain their workforce by reducing the "price" of retaining each worker, and provide them with additional resources that could be used toward investment or additional hiring.

7. SMALL BUSINESS INVESTMENT

The provision will allow small businesses to deduct up to $75,000 of investment in equipment during 2003. Under current law, businesses that invest less than $200,000 can deduct up to $25,000 of their investment in 2003. This measure increases the deductible amount by $50,000 for one year and raises the phase-out threshold to $325,000.

Cost: FY03: $2 billion FY03 - FY12: $1 billion

Stimulus Impact

Currently, businesses are spending very little money on new equipment and other capital assets. Small business investment is an important source of spending for the U.S. economy. Raising the expensing limit for one-year will boost spending in the short-term, thereby providing stimulus to the economy.

8. BONUS DEPRECIATION

The 2001 stimulus bill provided an additional first-year depreciation allowance of 30% for investments in business equipment and facilities between September 10, 2001 and September 11, 2004. This provision increases the additional depreciation to 40% for the remaining months of the bonus period.

Cost: FY03: $14 billion FY03 - FY12: $4 billion

Stimulus Impact:

Currently, businesses are spending very little money on new equipment and facilities. This provision would provide an incentive for businesses to increase such spending soon. Businesses would have a strong incentive to act quickly because any spending that would take place beyond the expiration period would not benefit at all from this increase in the depreciation allowance. The increase in spending on equipment in the near-term would help to stimulate the economy.

9. PROMOTE LONG-TERM FISCAL DISCIPLINE

The provision extends three key 60-vote points-of-order through December 31, 2004 or longer. As the other parts of this stimulus package increase the FY03 deficits, it is important that this package also promote *long-term* fiscal discipline. The best way to do this is to extend the three key 60 vote points-of-order that expire on April 15th so that they expire on December 31, 2004 or later.

Stimulus Impact:

This stimulus package would cost $160 billion in FY 2003. Although it might appear that enactment of the package would hurt long-term fiscal discipline, this would not be the case. The package has no cost in the out-years; indeed it actually saves a small amount of money during those periods. Nonetheless, to avoid any appearance that the package would harm fiscal discipline, the package includes an extension of three key 60-vote points-of-order from April 15th, 2003 to the end of calendar 2004 or longer. The expiration of these points-of-order on April 15th under current law has raised serious concerns that long-term fiscal discipline will disappear after that date. Extension of these points-of-order can help to reduce those concerns by preventing enactment of legislation that would substantially increase budget deficits in the out-years.

The prevention of deficit increases in the out-years is important not just for the future of the economy but for today's economy as well. The prevention of deficit increases in the out-years prevents upward pressure on long-term interest rates *today.* If long-term interest rates were to increase today, there would be a reduction in consumer and business capital spending that is financed by borrowing. These reductions in spending would exacerbate the economy's current weakness.